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ABSTRACT

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FILE NUMBER

32E-126-24/1

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29 Oct 1959

EGBA-60381

CONTINUATION OF DISPATCH	CLASSIFICATION SECRET	DISPATCH SYMBOL AND NO. KGBA-60381
<p>5. Safety margin for miscellaneous unanticipated costs: DM 5,000 DM 136,422</p> <p>B. Estimated income:</p> <p>1. From sale of assets DM 17,305</p> <p>2. From accounts receivable DM 8,000 DM 25,305</p> <p>C. Estimated net project termination costs: DM 111,117</p> <p>D. Recapitulation of FY 60 costs (disbursements):</p> <p>Project funds already disbursed (including November 1959 subsidy) DM []</p> <p>Projected December operating costs (fixed and variable), exclusive of Item A.1.a. above DM []</p> <p>Estimated net project termination costs DM []</p> <p>E. Total FY 60 budget required DM []</p> <p>or \$ []</p>		
<p>II. In ^{SECTION} paragraph A. of the above schedule (estimated project termination costs):</p> <p>A. <u>Item 1.a.</u> is the total of normal Christmas bonus payments for all CARDINALE employees.</p> <p>B. <u>Item 1.b.</u> includes severance pay to four employees whose tenure and status require payment of salary until 31 March 1960 (DM 10,452); one or two months' gratuitous salary payments to the remaining personnel, depending on their relative employment status (ca. DM 13,000, exact amount to be determined); and employer's taxes on the above and Item 1.a. payments (ca. DM 4,000, exact amount to be determined).</p> <p>C. <u>Item 1.c.</u> consists of salary payments for L-1 (DM 2,675 monthly), L-4 (DM 1,000 monthly) and L-8 (DM 900 monthly) for the three-month period January-March 1960. In effect, this extends the KUBARK employment of these three principals through the first quarter of 1960. During this period the services of all three will be required to handle the rather complex tasks involved in closing down LCCASSOCK and CARDINALE operations. L-1 will be needed primarily to handle the disposal of assets and records, to settle the overt affairs of CARDINALE (including the commercial magazine) and to advise generally on LCCASSOCK connections in the process of dissolution. L-4's services will be needed to settle accounts with distributors, to terminate liaison and backstepping connections with the Bundespost and to deal with employee matters (including employee claims against CARDINALE if they should arise). L-8 will be actively employed for at least the first three months of 1960 to handle post-liquidation correspondence, pay bills and generally act as a liquidation clearing office.</p> <p>D. <u>Item 2</u> termination settlements for L-1, L-4 and L-8 represent nine-month severance pay in each case. It is possible that L-8 will continue to "work off" part of her termination settlement after her employment ends on 31 March 1959 by assisting the liquidator in his correspondence and negotiations with belated creditors and by continuing to act as a central liquidation clearing point as needed. In the case of L-4, the amount proposed is not out of line in view of the agent's almost ten-year KUBARK service. The amount proposed for L-1 is proportionate to his present salary status (relative to L-8 and L-4) and appears commensurate with his nine-year utilization by KUBARK.</p>		
FORM 10-57 53a (40)	USE PREVIOUS EDITION. REPLACES FORMS 51-28, 51-28A AND 51-29 WHICH ARE OBSOLETE.	CLASSIFICATION SECRET
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E. Item 3.a. amount represents the unpaid balance on the office rental contract. This contract is binding until 30 April 1961, that is, for sixteen months following the termination of operations on 31 December 1959 (monthly rental of DM 830 x 16 = DM 13,280). It is quite possible that this amount can and will be reduced by finding another tenant to take over the contract or by an arrangement whereby CARDINALE sublets the offices for a reduced rent for the duration of the contract. The latter alternative is the more likely prospect, but it is still too early to estimate the extent by which the total amount might be reduced in this way. We have accordingly included the full amount of the contract, subject to a possible future reduction.

F. Item 3.b. is an amount representing the estimated cost of liquidating the CARDINALE telephone system contract via a negotiated settlement with the Bundespost. This standard ten-year contract is legally binding until 23 February 1965 (DM 346.93 x 62 months = DM 21,509.66). In preliminary conversations with the Bundespost, however, L-4 has determined that considerably less than the full amount will be sufficient to absolve CARDINALE of its contractual liability in this case. At this writing we don't know what this compromise settlement will be, but our best guess is that it will be in the range of DM 10-15,000. The upper figure in this estimated range has been used for the purposes of this calculation.

G. Item 3.c. dismantling costs include amounts required to cover tax consultants' fees, renovation costs and contracts for postal, gas, water and burglar alarm facilities.

H. Item 3.d. is a very rough estimate of the amount needed to settle creditor claims on CARDINALE. (See paragraph IV below.)

I. Item 4.a. is an amount provisionally set aside as a fee for the lawyer designated to act as CARDINALE liquidator and KUBARK ownership trustee during the year (spoorjahr) following the initiation of legal liquidation. (During this year the CARDINALE legal shell will remain alive, and its net worth cannot be liquidated.) In recent discussions with ☐ ☐ we have concluded that, all things considered, ☐ ☐ would be the best candidate for this job. LCCASSOCK-7, the other possible candidate, is regarded as not sufficiently reliable and a bit too expensive for this purpose (we would have to extend the trusteeship contract with him for another year). With ☐ ☐ we would have someone who could be counted on to represent KUBARK interests exclusively and unhesitatingly. Moreover, his "outside" status would minimize the possibility of personal entanglement with project principals and termination problems, and his extra-project relationship to would provide a desirable independent check on the liquidation process. In order to avoid unnecessary publicity for ☐ ☐ as liquidator (the name of the liquidator is announced three times in the public press), it is proposed that L-1 act as initial liquidator, registering himself as such in the official Handelsregister and taking care of the press announcements, and thereafter turn over the function to ☐ ☐ This switch would involve the registration of ☐ ☐ name in the Handelsregister (as successor to L-1) but would be otherwise unpublicized. ☐ ☐ estimates that ☐ ☐'s fee as liquidator (and as KUBARK ownership trustee) for the full liquidation year would not exceed DM 3,000.

J. Item 4.b. is an arbitrary amount, calculated at the rate of DM 300 monthly for twelve months, to cover incidental liquidation expenses which may arise, such as the cost of maintaining a P.O. account and address for CARDINALE during the liquidation year.

K. Item 5. the last item in the termination cost schedule (Section A), is an amount we have included to cover presently unforeseeable expenses which may arise during the liquidation process.

III. In Section B of the above schedule (estimated income) we have included conservative estimates of two types of income which may be expected to reduce gross liquidation costs. These are:

A. Item 1, income from the sale of CARDINALE office furniture, printing equipment and two cars. Under separate cover attachment is a cost inventory of these assets, based on current market conditions. Their total assessed value is estimated at DM 28,842. For present purposes, particularly in view of the need to find buyers without undue delay, we have arbitrarily discounted this assessed value by 40 per cent. The resulting "estimated sale" value, DM 17,305 has been used in the above calculation.

B. Item 2, proceeds from accounts receivable. This is a rough estimate of the amount which is expected to accrue from CARDINALE debtors (largely sale outlets for the commercial magazine). See paragraph IV below.

IV. With respect to Section A, Item 3.d. and Section B, Item 2 (accounts receivable and payable), it will be noted that these items tend to balance one another out, that is, before CARDINALE goes into legal liquidation it is expected that income from outstanding debts will largely cancel out payments to outstanding creditors. After legal liquidation is initiated—this is tentatively planned to take place some time in January 1960—the net worth of the business, that is, the realizable value of assets less liabilities, will be "frozen" as far as KUBARK is concerned. During the ensuing liquidation year, the liquidator of the firm is empowered to use the remaining assets to pay creditor claims as they arise, but the final net worth of the business cannot legally revert to KUBARK until after the expiration of the liquidation year. As noted above, it is planned to reduce both accounts receivable and accounts payable to an absolute minimum before legal liquidation "sets in." In this way, KUBARK will realize a maximum reimbursement from the project to reduce FY 60 budget needs and a minimum amount will remain as unrecoverable until FY 61.

V. You will note that, as a general rule, we have maximized costs and minimized income in the paragraph I calculation. In other words, we expect that net project termination costs will not exceed DM 111,117 but may well be less than this amount. Based on this maximum cost estimate, and including subsidy funds already disbursed and projected to cover December operating costs, the FY 60 budget required for the project is estimated at DM [] or \$[].

VI. As an aid in fitting the above calculations and comments into a chronological framework, the following termination time schedule has been prepared, based on BOB discussions with LCCASOCK principals and with [] over the past month. This schedule is substantively tentative and incomplete, but it does provide a rough working chronology of the termination process in the coming months.

November: Instruct L-7 to transfer his trusteeship of KUBARK's equity in CARDINALE to [] Notarized contract to be effective before 10 December.

December: Set date for initiation of legal liquidation, preferably sometime in January 1960. L-1 to be designated as initial liquidator.

December-January: To the greatest possible extent convert physical assets and accounts receivable to cash, to apply against accounts payable and current liquidation expenses.

January: L-1 registers legal liquidation in Handelsregister, naming himself liquidator, and announces liquidation three successive times in the public press.

January: L-1 and L-4 formally relinquish their CARDINALE equities. Reimbursement to them (necessary for tax purposes) to be deducted from their termination settlements.

January-February: L-1 transfers liquidation function to []

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CONTINUATION OF DISPATCH	CLASSIFICATION SECRET	DISPATCH SYMBOL AND NO. ROBA-68381		
<p><u>January-February:</u> L-1 prepares the required CARDINALE financial report, as of the date of initiation of legal liquidation.</p> <p><u>February 1960 - January 1961:</u> L-1 satisfies any remaining CARDINALE creditors.</p> <p><u>January 1961:</u> L-1 prepares the required CARDINALE financial report at the end of the liquidation year and transfers the remaining realizable net worth of the firm to KUBARK.</p> <p>VII. The above calculations and time schedule are based on the assumption that L-1 will not find alternative means of keeping CARDINALE going after December 1959 as a legal and commercial entity. In actual fact, the chance that some such means will be found cannot yet be excluded. L-1 is continuing his efforts through various commercial and Fedrep connections to find enough business to keep the firm together, if only on a much reduced scale. We expect that the picture on this will be clear by the end of November at the latest. If no concrete alternative to dissolution is submitted by L-1 by that time, the above planning will be implemented. If, on the other hand, he comes up with a firm, substantive proposal which ensures that he will be able to keep the business going without KUBARK funds after 31 December 1959, our present termination cost planning will have to be completely revised. In this event our liquidation problems will be simplified and costs reduced.</p> <p>VIII. It is requested that Station, within the framework of its overall adjustment of the revised FY 60 budgets announced in PHAN 8341, take necessary action to secure adjustment of the LCCASSOCK budget. Station concurrence in the termination payments proposed for L-1, L-4 and L-8 per paragraph II.D. above is also requested.</p> <p style="text-align: center;">L 1</p>				
DRM 1-57 53a 01	USE PREVIOUS EDITION. REPLACES FORMS 51-28, 51-28A AND 51-29 WHICH ARE OBSOLETE.	CLASSIFICATION SECRET	<input type="checkbox"/> CONTINUED	PAGE NO. 4